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SUBJECT: COLOMBIA'S OIL & GAS OUTLOOK: INVESTORS BULLISH, PREDICT PROLONGED EXPORTER STATUS

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1, (SBU) SUMMARY: Investment in Colombia's oil and gas sector continues to grow as a result of pro-market policies, expanding security, and the successful private capitalization of state-owned Ecopetrol. As a result, Colombia has reversed its long decline in oil production and extended its status as a net oil exporter through at least 2015. While few experts expect Colombia to uncover a globally significant find, local producers believe Colombia still holds profitable plays in natural gas offshore, heavy oil near the Venezuelan frontier, and micro-fields of lighter-grade oil in the interior. The GOC plans to auction its next major round of exploration blocks in September 2008. END SUMMARY.

Strong Investment Climate Attracting Capital

¶2. (U) Since 2002, the GOC has taken significant steps to improve investment terms in the energy sector and attract capital, including a sliding royalties scale, longer contracts and 100 percent foreign stakes. Colombia now ranks second only to Brazil as the most attractive country in Latin America for hydrocarbon investment, according to a report compiled by independent energy sector research firm Arthur Little. The report cited Colombia's reform efforts and the improving security as the basis for Colombia's high ranking, contrasting Colombia's openness to foreign direct investment with the resource nationalism growing in other Latin American countries.

¶3. (SBU) Most oil and gas producers in Colombia have significantly increased their investment plans in Colombia. British Petroleum (BP), which currently produces 20 percent of Colombia's oil, plans to invest USD 500 million in oil production and exploration in 2008. Petrobras Colombia President Dirceu Abrahao told Econoff that Brazilian-owned Petrobras invested USD 300 million in Colombia in 2007, up from an average of USD 30 million per year before 2004. He said Petrobras drilled 23 wells in 2007 and expected to drill a similar number in 2008. Likewise, Chevron Colombia President David Bantz told Econoff that good cooperation with Colombia's National Hydrocarbons Agency (ANH) and the Ministry of Mines and Energy were key to his company's decision to invest over USD 350 million in Colombia over the

last two years. He described President Uribe as the best head of state in Latin America for international investors to work with. Overall, Colombia's National Hydrocarbon Agency (ANH) expects USD 3.5 billion in new foreign investment in Colombia's oil and gas sector in 2008.

¶4. (SBU) The Director of Colombia's National Hydrocarbons Agency (ANH), Armando Zamora, told Econoff that the GOC recognizes it must encourage investment to extend Colombia's net oil exporter status. Oil currently represents 26 percent of Colombia's exports, but without significant new discoveries, Zamora estimates Colombia will shift to a net oil importer in 2016. He noted that 2007 was a banner year for new wells with 73 drilled throughout the country--up from 12 in 2002 and the highest number since 1989. Of the 73 new wells drilled, 21 found oil and are now producing an additional 22,000 barrels per day (bpd). Alejandro Martinez, President of the Colombian Petroleum Association (ACP), predicts that operators will drill at least 77 oil wells in ¶2008.

Ecopetrol Rising

¶5. (SBU) State-owned Ecopetrol, fresh off of its successful privatization of a 10 percent stake in the company (ref A), expects to invest an additional USD 3.8 billion in exploration and production, up from USD 1.8 billion in 2007. Over the next four years, Ecopetrol plans to invest USD 17 billion. Ecopetrol increased its exploration activities 35 percent in 2007 and plans to drill 20 new wells in 2008. Ecopetrol has developed partnerships with Chevron, ExxonMobil, Occidental Petroleum, as well as with other international firms. Increasingly, Ecopetrol has looked to

Petrobras as a model for its development as a technically sophisticated parastatal hydrocarbons company with private investment and corporate governance standards.

¶6. (SBU) Petrobras' Abrahao termed Ecopetrol as the best state-managed hydrocarbons company in Latin America after Petrobras, but said that to reach the status of a truly regional or global player, Ecopetrol must have adequate human resources and reserves. Abrahao pointed out that Ecopetrol has not traditionally focused on reserves, but that is changing now. He acknowledged that Ecopetrol looks to Petrobras as a model and, apart from cooperating in projects in both Colombia and Brazil, Ecopetrol asked Petrobras officials to assuage Colombian Members of Congress on Petrobras' private capitalization process before the Colombian Congress approved Ecopetrol's successful 10 percent privatization.

Raising the Line on Oil Production

¶7. (U) Fueled by increased foreign and domestic investment, Colombia has halted its slide in oil production and begun to reverse the trend. According to ANH, oil production fell from an average of 578,000 bpd in 2002 to 526,000 bpd in 2005 before recovering to 544,000 bpd in 2007. Minister of Mines and Energy Hernan Martinez announced February 4 that daily oil production reached 558,000 bpd in December 2007. The Minister also announced the GOC was extending its current estimate for maintaining oil net exporter status from 2014 to ¶2015. (Note: At the beginning of the Uribe Administration in 2002 the GOC estimated Colombia would shift to importer status in 2009. End Note.) According to preliminary ANH figures, Colombia's oil reserves grew by 190 million barrels in 2007 to 1.5 billion barrels, but still remain down from 1.9 billion barrels in 2000.

Bright Future for Natural Gas Production

¶8. (SBU) Meanwhile, natural gas production and reserve estimates continue to grow. Since 2003, Colombian gas production has risen from 578 million cubic meters to 730

million cubic meters in 2007. ANH estimates current gas reserves at 7.3 trillion cubic feet, or roughly a 20-year domestic supply. Bantz said that Chevron expects stable or rising gas production in Colombia for at least ten years. The company operates two platforms offshore of La Guajira Department responsible for 60 percent of Colombia's gas production and has ramped up investment since 2005. Bantz suggested the GOC's successful auctioning of nine offshore blocks (ref B) was due in large part to the solid prospects of additional gas deposits in blocks bordering Chevron's current concession. Although Chevron focuses only on offshore gas now, the company expects growing exploration to uncover an increased number of economically viable gas deposits onshore as well.

¶9. (SBU) For the moment, Bantz said Colombia's gas volume appeared too small for the country to become a significant long-term exporter. However, he cited important niche opportunities such as Chevron's partnership with state-owned hydrocarbons company Ecopetrol that began exporting 80 million cubic feet (2.3 million cubic meters) of gas per year to Venezuela in early January via the new La Ballena pipeline (ref C). Demand has been so great -- 300% of that projected -- that the company will seek to renegotiate the terms of the contract. As presently planned, Chevron is to increase its production from La Guajira by 25 percent in 2008, rising to 150 million cubic feet in 2009 before reversing the pipeline flow in 2012 with Venezuela supplying 137 million cubic feet of gas to Colombia per year.

Growing Interest in Heavy Oil, Accumulating Small Deposits

¶10. (SBU) Besides natural gas, several company and GOC officials tell us Colombia has prospects for developing heavy oil belts near the frontier with Venezuela. Petrobras and Ecopetrol, in particular, are examining prospects in these areas. According to ANH Director Zamora, his agency plans to

auction heavy oil blocks in four zones in 2008, The zones, averaging 1,800 square kilometers each, include Sinu-San Jacinto and Cesar-Rancheria in northern Colombia as well Soapaga along the Eastern Cordillera and the Llanos basin in eastern Colombia. The blocks will be available to bidders capable of producing a minimum of 5,000 bpd and a capitalization of at least USD 500 million. ANH plans to issue official bid terms in March with bids accepted in September.

¶11. (SBU) Oxy Colombia's President David Stangor told Econoff that rather than go after new blocks with heavy oil potential, his company intends instead to concentrate on finding small and medium fields (i.e. 1,000 to 5,000 bpd) of lighter oil. Oxy, which produces 100,000 bpd from three "light oil" fields responsible for roughly 20 percent of Colombia's national output, plans to drill 11 new wells in 2008 versus only two in 2007. Stangor expressed doubt that Colombia held a "globally significant" find, but said that Colombia's excellent terms and expanding exploration area will continue to attract capital and turn up medium and small finds of lighter grade petroleum. Petrobras' Abrahao echoed the view saying international companies are motivated to invest in Colombia, not because of high probabilities of a large find, but rather the positive investment climate that makes small and medium finds profitable.
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